

NEWSLINE

Savings Plus Program

2nd Quarter 2004

UNDERSTAND YOUR INVESTMENTS — INTERNATIONAL FUNDS

This is the sixth in our series of articles on the basic investment categories — Cash/Stable Value, Bonds, Stocks — and another category Savings Plus offers called “Lifestyle” funds. In this issue we focus on International Funds.

International funds invest in stocks or bonds of foreign firms and governments. Many international funds invest in particular countries or regions, mostly in “developed economies” of Western Europe and the Asian-Pacific rim. Other international funds specialize in “emerging markets,” which are countries where the economic and political systems are less stable than in developed countries.

International funds offer opportunities for growth and diversification that you wouldn’t get by investing exclusively in U.S. funds. They also carry some additional risks, described here.



What are the risks?

There are two primary risks with international funds. The first involves currency exchange rates. Investors in international funds must use the currency of the country where the underlying stock belongs. For instance, to purchase stock in a company in Japan, your dollars first must be converted to yen. If the dollar-yen exchange rate changes, it affects whether the investment has gained or lost value, even if the underlying stock value is the same.

The second risk relates to the political and economic system of the countries in which the fund managers invest. Most international funds invest in “developed” nations, where economic markets and political systems are well defined and historically stable. However, if a country experiences negative, rapid political change, its economy can be dramatically affected. The change may be a devaluation of the net worth of companies headquartered in that country

and/or weakening of the country’s currency in relation to the U.S. dollar.

International funds are considered aggressive, with the growth of capital as the primary objective. Therefore, you must be willing to risk potential loss in value in exchange for potentially substantial gains. International funds may be less suitable for investors who must

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SPP's International Funds	Fund Category
Glenmede Institutional International Fund	International Value
Janus Adviser International Growth Fund	International Growth

KNOW YOUR DISTRIBUTION OPTIONS

Federal and state pension reforms enacted in 2002 provide more flexibility when you make retirement decisions. Gone are the previously “irrevocable” decisions regarding payment options from your 457 plan. You now have a wide variety of choices when deciding when and how you want to receive payouts from your 457 and/or 401(k) account.

These distribution options are summarized below. SPP’s *Getting Started* handbook provides additional information on these options. If you’re approaching retirement, you should review our *Benefit Payment Booklet (DC-3774)*, which explains these options in detail. To obtain a copy, go to SPP’s Web site at www.sppforu.com and look for Forms and Publications. You also can order a copy by phone: call SPP at 866-566-4777, enter your Social Security number and PIN, press 4, then press 5. Enter 8039 for this booklet. Allow 6-10 days for delivery.

Options when you retire or separate:

- **Leave funds in SPP.** You may leave funds in your SPP account(s) and continue to manage your investment choices. However, you may not leave the funds there indefinitely — see “Required Minimum Distribution.”
- **Receive periodic payments.** Under this option, you choose one of the following types of payment from your account(s):
 - Fixed Period. You choose to receive monthly or annual payments over a fixed period of time.
 - Fixed Amount. This option allows you to designate a specific

dollar amount to receive monthly or annually. The minimum payment period is one year.

- **Required Minimum Distribution.** You may select this annual payment option in the year you reach age 70½ or the year you retire, whichever is later. You may delay your first payment until April 1 of the year following the year you reach age 70½. However, if you delay, you will receive one minimum payment in March and another one in November of the following year.

- **Receive supplemental payments.** This option allows you to withdraw additional money at any time you are receiving periodic payments.
- **Withdraw funds directly.** This “direct payment” option allows you to specify, at any time, a dollar amount or percentage of your funds you want to withdraw.
- **Roll over to an IRA or another plan.** This option allows you to move (roll over) a percentage or dollar amount of your SPP account(s) to an IRA or another employer’s plan. Reminder: a rollover from a 457 plan to an IRA has potential tax implications if you withdraw funds from that IRA before age 59½.
- **Purchase an annuity.** This option allows you to use your Savings Plus funds to purchase an annuity.

After you review the booklet, if you still have questions about your distribution options, contact SPP at 866-566-4777, and press *0 to talk to a customer service representative.

RETIRING SOON?

Remember, when you retire or separate from State service, you can transfer your separation pay into your SPP account. Separation pay consists of hours you’ve earned but haven’t used, including annual leave, vacation, PLP, and holiday pay.

This “lump sum” transfer is a powerful tax deferral benefit. Why? Because separation pay, if not placed in your tax-deferred SPP account, will be subject to immediate tax withholding and may increase your tax liability. Making a “lump sum” transfer to your SPP account allows you to control your tax liability because this money will only be taxed when you withdraw it, generally over time, and at a later date.

To qualify for this transfer, you must provide a written request to your employer. Use the SPP form *Request to Transfer Lump-Sum Separation Pay (DC-3949)*. If you have an SPP account already, you must submit this form at least *five business days prior to your final day* of employment. If you do *not* have an SPP account, you must establish your account at least *one pay-period* prior to your separation or retirement date.

The *Request to Transfer Lump-Sum Separation Pay* booklet is available at www.sppforu.com under Forms and Publications. You can also request a copy by phone: call SPP’s toll-free number at 866-566-4777, enter your Social Security number and PIN, press 4, then 5. Enter 8037 for this booklet. Allow 6-10 days for delivery.

Once the money is credited to your account, you may immediately take a distribution (payment). You will only pay tax on the amount you withdraw. To request a distribution, submit SPP form *Benefit Payment Booklet (DC-3774)*. If you have questions, contact SPP at 866-566-4777, and press *0 to speak with customer service.

Monthly Fund Performance Now Online

We recently added a new feature to our Web site that helps our participants get up-to-date performance information on their SPP investments. SPP updates these “fund performance reports” by the 5th business day of every month.

This new online feature complies with a Securities and Exchange Commission (SEC) requirement that investment providers offer timely information and returns, current as of the most recent month-end. Two funds in our portfolio — Vanguard GNMA Bond Fund and Vanguard U.S. Growth Fund — received exemptions from this SEC rule. Their performance information will be updated quarterly rather than monthly.

To access the performance reports:

Current Participants — Login to your account, click *My Account* or *Employer Reports*, select *Fund Detail*, then click *Monthly* or *Quarterly*.

Employees who do not yet have an account — Go to SPP’s Web site at www.sppforu.com, click *Employee*, select *Fund Performance*, then click *Link* in the 3rd paragraph. Choose **California** from the drop-down menu and enter **Savings Plus**. Then click **State of California Savings Plus Program** to view performance numbers.



PCRA TRADE FEES REDUCED

SPP is pleased to announce that trade commissions in the Schwab Personal Choice Retirement Account® (PCRA) have been reduced. The price change, effective June 15, 2004, complements all discounts PCRA participants currently enjoy. The new pricing is based on the number of shares you trade and how often you place trades in your PCRA.

If you trade fewer than 30 times per quarter, each Web equity trade will be \$19.95 for the first 1,000 shares, plus 1½ cents per share thereafter. The commission for this type of transaction was previously \$29.95 for up to 1,000 shares, plus 3 cents per share thereafter. If you trade 30 times or more per quarter, each trade will be \$14.95, regardless of the number of shares involved.

For stocks less than \$1 per share, each trade will be a flat \$19.95 or \$14.95, whichever applies based on your trading frequency, regardless of the number of shares involved.

The PCRA brokerage account is an option for savvy, “hands-on” investors desiring more involvement, more choices, and greater flexibility in choosing their investments. Contact the Schwab PCRA call center at 1-888-393-PCRA (7272) for further information about the Schwab PCRA. For an enrollment kit, call Savings Plus at 1-866-566-4777, and press *0 to speak with a customer service representative.

VIEW YOUR SPP STATEMENT ONLINE

Beginning July 19, you can view your latest quarterly statement on SPP’s Web site (www.sppforu.com). Access will be through the password-protected My Account page. As additional statements are issued over time, it will become a convenient way to look up past statements (back to the 2nd quarter 2004).

You must log on to your account to access this new feature. From the Employee Services page, click on *Account Access*, then enter your username and password. If you have not yet set up your online username and password, you need to do so (select *New User Setup*). Note: For security purposes, your online password is different from the PIN you use to access your account via phone.

After your account page appears, click on *Statement* (under the Account Summary section). This will take you to a page listing the statement period. Select the statement you wish to view and/or print.



To receive statements prior to the 2004 2nd quarter, you need to call SPP’s toll free number (866-566-4777) and push *0 to speak with customer service. You will be charged a nominal fee for the cost to research and reproduce past statements not posted on our Web site.

INVESTMENT FUND UPDATE

FUND INVESTIGATIONS

No items to report.

FUND MANAGER CHANGE

Vanguard U.S. Growth, April 2004 — The fund has undergone a change in management structure. A new manager, William Blair & Co. L.L.C., has been added to manage approximately 25% of the portfolio. The Blair & Co. managers are James L. Barber, John F. Jostrand, and Norbert W. Truderung. The current managers, Alan Levi and John L. Blundin, at Alliance Capital Management L.P., will continue to manage approximately 75% of the portfolio.

Hartford Advisers HLS, February 2004 — John Keogh replaced Paul Kaplan as the fixed income portfolio manager. This is a “balanced fund” that consists of both stock and fixed income. Mr. Keogh has 20 years experience in portfolio management at Wellington Management (sub-advisers on this fund).

WATCH LIST	CRITERIA
American General (VA) Stock Index Fund	1
Janus Advisers International Growth Fund	3 *
Janus Balanced Fund	3 *
Janus Twenty Fund	3 *
Hartford Advisers HLS Fund	1
Hartford Stock HLS Fund	1
MFS Capital Opportunities Fund	3/8**
Putnam Investors Fund (Nationwide VA)	1
Seligman Growth Fund (Nationwide VA)	1
Vanguard U.S. Growth Fund	1

* In April 2004, Janus Capital Group (JCG) CEO Mark Whiston stepped down. Steve Scheid is the new CEO for JCG.

** In February 2004, MFS announced it reached settlements with the SEC and NY/NJ Attorneys General.

MFS CEO John Ballen stepped down. Robert J. Manning has been named the new CEO at MFS.

WATCH LIST CRITERIA:

- 1 Did not meet the established performance standards (benchmark/peer universe) over preceding 3/5-year period
- 2 Investment manager changed or such change appears imminent; this change may have detrimental effect on fund
- 3 Significant change in ownership or control of the fund provider
- 4 Material change occurred in investment focus/strategy, capitalization, or investment style
- 5 Substantial portfolio turnover within the fund
- 6 Violation of a Security and Exchange Commission rule or regulation
- 7 Fund experienced difficulty transacting trades, fund transfers, or pricing
- 8 Fund experienced problems in procedures or operations, which may detract from Savings Plus objectives
- 9 Violation of contract terms

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conserve their principal or maximize current income.

Should I invest?

You should carefully evaluate whether to choose an international fund based on your objectives, time horizon, and risk profile. For help in these areas, refer to the SPP *Investment Guide*. In particular, use the “asset allocation” questionnaire provided by Ibbotson Associates. It will help you identify whether you’re a conservative investor, in which case you should consider allocating only a very small percentage, or none at all, to an international fund. Conversely, if you’re an aggressive investor, you may wish to allocate up to 30% of your assets to international funds.

SPP currently offers two international funds, listed in the chart on page 1. In the next *NewsLine*, we’ll report on Asset Allocation funds offered through Savings Plus.



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